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MONTHLY PROJECTIONS
December 1985

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FOURTH QUARTER IS WEAKER BUT WITH MORE MOMENTUM THAN PREVIOUSLY THOUGHT

Note: Because of the holiday season, no attempt has been made to evaluate the significance of the GNP data revisions at the present time. A detailed analysis of the economic significance derived from those revisions will be available in our January Projections. The following analysis is based upon monthly data available prior to the adjusted GNP data.

Both retail sales and industrial production suggest that economic activity was weaker in October than originally expected. Retail sales were revised downward to show a decline of 4.2% in that month while industrial production showed a recession-type decline of 0.4%. We had some difficulty relating these unusually weak statistics to the performance of other components during that month, as retail inventories surged by nearly 3%. In addition, merchandise trade deficits appeared to diminish. At the same time, shipments of capital goods from durable manufacturers jumped by an unusually large amount. In other words, less appears to have been produced and fewer net imports appear to have arrived. Nevertheless, more goods were shipped while retailers sharply increased their inventory holdings. Probably the discrepancy is caused by stronger imports arriving than implied by the trade deficits. However, the rebound in capital goods shipments, even though they were aircraft, suggests that fixed investment will rebound significantly in the fourth quarter.

Despite the data difficulties in understanding what actually occurred in October, both retail sales and industrial production suggest that activity rebounded sharply in November. Inventory data are not yet available for that month, but the evidence suggests that further inventory accumulation developed. Following the unusual surge in durable goods shipments in October, some decline is expected in November. Nevertheless, fixed investment continues to look healthy in the quarter. Indeed, capital spending should exceed the 0.8% decline anticipated in the latest plant and equipment expenditures' survey released by the Department of Commerce. Employment statistics, of course, suggest that more economic activity developed in October than November. However, survey timing indicates that employment performance was biased upward in October, causing a downward bias in employment changes for November. The two-month average probably is on-target for the quarter.

Despite the difficulty in determining how activity changed in October and November, it appears that downward revisions in October will lead to a lower rate of change in the GNP than previously anticipated. However, greater rates of improvement in November suggest that economic momentum has begun to intensify. While fourth quarter GNP has been reduced, activity in the first half of 1986 has been increased.

A second factor leading to more robust economic activity than previously anticipated is the more favorable outlook for inflation in the first half of 1986 than originally expected. Although oil prices are not falling any further than expected, they appear to be declining about four months earlier than anticipated. In effect, the price indices are approximately at the same point at the end of 1986 as they were expected to be a month ago. However, lower prices early in the year mean that the average inflation rate for the year will be less than originally projected. The GNP deflator will be rising only 3.4% in 1986 while the Consumer Price Index will show an increase of 3.5%. This moderation in inflationary pressures is especially noteworthy during the first half of the year. As a result, more real purchasing power is available to consumers while net exports are reduced as a result of more favorable pricing of oil imports than previously anticipated for the early months of the year. While such reduced oil prices do not provide any reason to anticipate more vigorous economic activity in 1987, unless, of course, oil prices fall further, they do result in more economic growth in 1986.

In addition, reduced inflationary pressures result in lower nominal interest rates than originally expected. While a discount rate cut is not anticipated, previous expectations that inventory investment will generate increasing pressures upon short-term interest rates have largely been eliminated from our outlook. It now appears that the federal funds rate will trade near 8% throughout next year. This suggests that the prime rate will trade near 9.5%. Bond dealers probably will want to increase the inventory of their bond holdings until yields on long-term government bonds fall below their borrowing cost. This provides an equilibrium target for long-term yields between 9.25 and 9.5% for 30-year government bonds. Of course, if the discount rate falls, the borrowing cost for holding bond inventories will decline. In addition, capital gains will be earned on the previous inventories. The bond market currently is anticipating that a discount rate cut will develop, but our projections strongly suggest that the Federal Reserve does not need such a change at the present time. Therefore, little further improvement is anticipated in long-term bond yields during 1986. On the other hand, the absence of any significant upward pressures upon short-term rates should prevent any significant upward move in long-term bond yields during the year.

Just as the bond market has begun to anticipate a discount rate cut that may not materialize, the stock market appears to be anticipating improving corporate profits, partially as a result of declining interest costs, can persist through 1986. However, as interest cost stabilize, profit gains will be more difficult to generate. Therefore, equity investors probably are paying an excessive premium for equity earnings at the present time. Our analysis does not yet show that equity values exceed our formulas by more than 10%, the presumed catastrophe point from which a significant stock market reaction develops. However, the overvaluation of equities is sufficiently close to that margin to eliminate prospects of significant capital gains in 1986.

Quarterly Profile of GNP

	1985-3	1985-4	1986-1	1986-2	1986-3	1986-4	1986
Real:	4.3	2.4	3.5	3.9	2.2	3.0	3.2
Price:	2.3	3.6	3.6	3.3	3.7	4.1	3.4
Nominal:	6.7	6.1	7.2	7.3	6.0	7.2	6.7

Monthly Statistical Highlight for December 1985

Payroll employment +273,000; index of hours worked +0.3%; household employment +252,000; civilian unemployment rate 7.0%; personal income +0.6%; savings rate 2.5%; personal consumption +0.7%; retail sales +1.0%; auto sales 10.0 million; housing starts +8.3%; housing permits -2.4%; construction expenditures -0.3%; business inventory +0.3%; orders for durable goods +0.7%; orders for nondefense capital goods -0.4%; industrial production +0.2%; CPI +0.3%; PPI +0.4%; consumption deflator +0.3%; leading indicators +0.3%; real GNP +2.1%; M1 +13.2%; M2 +7.2%.

Monthly Statistical Highlight for January 1986

Payroll employment +239,000; index of hours worked +0.3%; household employment +268,000; civilizn unemployment rate 6.9%; personal income +0.6%; savings rate 2.7%; personal consumption +0.4%; retail sales +0.2%; auto sales 10.0 million; housing starts +2.1%; housing permits -0.9%; construction expenditures +5%; business inventory +0.3%; orders for durable goods +0.7%; orders for nondefense capital goods +0.9%; industrial production +0.2%; CPI +0.3%; PPI +0.2%; consumption deflator +0.3%; leading indicators +0.2%; real GNP +5.0%; M1 +3.5%; M2 +7.5%.

COMMENTARY

Employment - As expected, unusual timing in the employment surveys generated stronger economic gains than was consistent with October activity followed by weaker employment gains than was confirmed by the monthly statistics for November. Weakness in the workweek was November was concentrated in the trade and service sectors. Apparently, increased part-time personnel were being used to meet temporary needs in those sectors. The unemployment rate fell despite unusual sluggish employment growth because participation rates for females and teenagers declined. It appears that fewer teenagers and females are entering the workforce than had been previously been anticipated. Therefore, the unemployment rate should be able to fall at lower rates of economic activity than previously anticipated. In addition, the continuing tendency to overemploy and overinventory in the retail sector has not yet abated. As a result, productivity performance will remain subdued, leading to lower rates of growth in economic activity that is consistent with unchanged unemployment rates. This process of overstoring is expected to be temporary. Therefore, the adverse productivity performance associated with retail expansion should gradually diminish. However, this reduced growth in retail employment must await diminished expansion of retail square footage by developers. Such a slowing is not expected to materialize until very late in 1986.

Personal Income & Retail Activity - Hurricanes continues to impact the rental income component of personal income. This impact will continue to be reflected

until the December statistics. This results in lower income growth and in lower personal savings. Indeed, because repairs have increased, expenditures are also heightened even as imputed rental incomes are reduced. In addition to the temporary reductions in rental income, declining interest rates have significantly erroded interest income. This decline in interest income is expected to continue into the first quarter of 1986. It appears that short-term fluctuations in interest income have a smaller impact upon consumer spending than fluctuations in wage earnings. Apparently, the fluctuations in property income do not alter expected normal income unless they persist for relatively long periods of time. However, even short-term fluctuations in wage earnings probably will alter the anticipated earnings stream from wages. As a result, unusually low rates of savings are being generated because of the collapse in interest rates at the present time. These unusually low savings rates are expected to persist through 1986.

Retail activity has rebounded from a lower base than originally expected. As a result, consumption will be weaker in the fourth quarter than originally anticipated. Most of the revision was in auto sales, which now makes the dollar value of sales conform more closely with the unit sales reports. However, unusual weakness in nondurable sales during October also materialize. Sharp increases in prices for food and gasoline in November reversed the decline in nondurables in that month. In addition, the unusually late Thanksgiving caused the Department of Commerce to shift about 0.4 percentage points of department store activity from the December seasonal to the November report. It is not clear that retail sales are sufficiently strong in December to justify that seasonal shift. Fortunately, a rebound in auto sales early in December had some dealers once again added incentives to generate sufficient retail sales activity to cause Christmas sales to exceed previous year levels by 6%.

Construction - Housing starts in November were unusually weak, as weather undoubtedly distorted some activity. Weakness was especially dramatic in New England but also was significant in the midwest. Both areas suffered unusually early winter weather during the month. Weakness in the south and west, however, suggests that weather is not the only factor influencing housing activity. The sharp decline in single-family starts partially is responsive to the earlier report of October weakness in single-family sales. Sales weakness appears to be the result of dissipating pent-up demand and the tightening of down payment provisions for purchasing homes. A rebound is expected in December, but the weakness in single-family sales suggests that even moderately declining mortgage rates will not excite significant gains in housing activity during 1986.

Business Activity - Once again sharp inventory increases in October created substantial surprise in business inventories. It now appears that inventory investments will be much more substantial in the fourth quarter than they were during the summer. However, substantial completions of aircraft, which were delivered by durable manufacturers, caused a significant decline in manufacturers' inventories during October. This appears to be a one-time downward adjustment from which manufacturing inventories now will rebound. On the other hand, the surge in October shipments of aircraft will probably be followed by some weakness in shipments in the next month or so.

Industrial production increased as expected following a more than anticipated downward revision in October. All major sectors of the economy showed some improvement, but autos were only assembled at 7.7 million. Higher auto assemblies appear likely in the coming months. Thus, industrial production of

consumer goods should continue to grow through the quarter. In addition, frigid weather will cause a significant rebound in utility production in the November and December indices. With manufacturing inventories beginning to rebound, further gains are expected in materials production as well. It, therefore, appears that manufacturing will register significant employment gain in 1986.

Miscellaneous - The earlier decline in oil prices will cause the inventory valuation adjustment to improve earlier and more sharply than originally anticipated. As a result, the increase in business inventory is even more significant than suggested by the unadjusted data. These favorable inventory valuations have two significant effects upon the 1986 outlook. First, adjusted operating profits will be even more favorable than reported profits suggests as inventories will be replaced at lower prices. Coupled with declining interest costs, at least early in the year, these profit prospects nearly justify the recent rebound in stock prices. Second, falling inventory prices increased these storage costs of holding inventories. As a result, an inventory buildup will be strongly resisted by producers. While this will generate sluggish economic activity, it also will prevent a significant surge in inventory investments, which normally leads to an economic decline.

FINANCIAL MARKETS

The odds still are against a discount rate cut by the Federal Reserve. Money growth has resumed an unusually vigorous path in November and December while broader monetary aggregates did not rebound as rapidly as M1 in November, all money aggregates appear to be growing rapidly in December. In addition, the dollar's value has gradually decreased even without substantial Federal Reserve intervention. The Federal Reserve might decide to keep a discount rate cut on the sidelines in case the dollar rebounds significantly. At that time, the discount rate cut could regenerate favorable currency movements.

Also, economic activity appears to be rebounding, if only slightly. We are currently projecting 5% real growth in GNP for January. It is conceivable that the Federal Reserve also anticipates some acceleration of activity. Of course, inflation remains well subdued at least until oil prices stabilize. Furthermore, the Congress has voted its intentions to become more restrictive in budgetary policy. However, the Federal Reserve probably will wait until fiscal restraint begins to develop.

Equity Markets - If long-term interest rates continue to yield 9.5% for 30-year government securities, the recent stock market rally is nearly justified by the decline in interest rates and the projected improvement in earnings on equity ownership. Of course, a discount rate cut would lower the interest cost, leading to higher equity earnings. It probably also would cause further declines in yields in long-term bonds. Thus, current stock market values would be justified if a discount rate reduction occurred. Our analysis is not anticipating such a favorable Federal Reserve event. For that reason, it appears that modest vulnerability current exists in the equity markets. While no dramatic selloff appears to be brewing, some profit-taking certainly could be justified under current economic conditions.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	97707	97707	116.0	116.0	106862	106862	7.3	7.3	165.4	165.4
August	97987	97977	116.7	116.7	107172	107172	7.0	7.0	165.6	165.7
September	98115	98217	117.2	117.0	107544	107544	7.1	7.1	165.6	166.7
October	98496	98571	117.5	117.4	107853	107867	7.1	7.1	166.3	166.4
November	98823	98753	117.7	117.3	108196	107927	7.1	7.0	167.0	166.9
December	99146	99026*	118.0	117.6*	108539	108179*	7.0	7.0*	167.7	167.3*
January 1986	99301	99265	118.3	117.9	108716	108447	6.9	6.9	168.3	167.8
February	99422	99438	118.5	118.1	108893	108639	6.8	6.8	168.7	168.2
March	99545	99615	118.7	118.3	109070	108841	6.7	6.8	169.2	168.8
April	99764	99801	118.9	118.5	109283	109046	6.7	6.8	169.8	169.4
May	99981	99993	119.1	118.7	109516	109275	6.7	6.7	170.3	169.9
June	100198	100205	119.3	118.9	109782	109499	6.8	6.7	170.9	170.4
July	100306	100378	119.4	119.1	109913	109702	6.7	6.7	171.4	171.0
August	100417	100526	119.5	119.2	110029	109890	6.7	6.7	171.9	171.5
September	100529	100691	119.5	119.4	110142	110075	6.8	6.8	172.5	172.0
October	100683	100844	119.7	119.6	110316	110265	6.7	6.8	172.9	172.4
November	100840	100973	119.9	119.7	110548	110455	6.7	6.8	173.3	172.9
December	100997	101102	120.2	119.9	110780	110604	6.7	6.9	173.8	173.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	3.189	3.188	1.923	1.923	104.0	98.7	2.707	2.707	2.603	2.608
August	3.199	3.196	1.934	1.933	79.2	74.2	2.713	2.710	2.634	2.636
September	3.209	3.207	1.949	1.945	51.9	48.6	2.717	2.716	2.665	2.667
October	3.225	3.221	1.960	1.953	83.1	80.3	2.730	2.725	2.647	2.645
November	3.254	3.232*	1.972	1.959*	91.2	70.6*	2.755	2.733*	2.664	2.662*
December	3.279	3.251	1.985	1.971	92.2	68.1	2.777	2.749	2.685	2.681
January 1986	3.290	3.269	1.997	1.983	89.5	74.9	2.789	2.768	2.699	2.693
February	3.310	3.286	2.006	1.993	93.0	77.8	2.804	2.782	2.711	2.704
March	3.332	3.305	2.015	2.004	99.9	80.5	2.820	2.798	2.720	2.718
April	3.349	3.325	2.026	2.017	97.6	86.9	2.834	2.814	2.736	2.727
May	3.365	3.342	2.036	2.027	92.6	86.1	2.847	2.827	2.754	2.741
June	3.381	3.359	2.047	2.038	89.5	89.0	2.859	2.840	2.769	2.751
July	3.397	3.377	2.054	2.050	92.5	87.3	2.872	2.854	2.780	2.767
August	3.412	3.395	2.062	2.060	90.7	84.4	2.883	2.869	2.792	2.785
September	3.428	3.411	2.070	2.070	89.4	82.3	2.896	2.882	2.807	2.800
October	3.443	3.430	2.079	2.081	83.0	81.9	2.907	2.897	2.824	2.815
November	3.459	3.445	2.090	2.090	77.1	80.2	2.920	2.909	2.843	2.829
December	3.475	3.466	2.102	2.103	74.8	82.2	2.933	2.927	2.858	2.845

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	2506.9	2511.3	336.9	336.9	892.1	892.1	1277.9	1282.2	1103.1	1104.1
August	2536.1	2538.0	357.4	357.7	893.6	895.4	1285.1	1284.9	1114.8	1116.6
September	2566.6	2567.6	372.5	375.6	901.1	903.0	1292.9	1288.9	1127.7	1128.9
October	2546.9	2544.2	338.9	335.6	906.3	911.5	1301.7	1297.1	1112.2	1111.1*
November	2562.2	2560.5*	340.5	338.2*	911.1	916.7*	1310.6	1305.6*	1114.5	1114.4
December	2581.7	2577.9	342.1	342.8	916.2	920.6	1323.4	1314.5	1118.6	1118.8
January 1986	2595.5	2588.9	342.3	342.7	920.7	923.9	1332.5	1322.3	1121.7	1120.2
February	2606.1	2598.9	343.0	339.9	923.5	928.3	1339.6	1330.7	1122.8	1120.8
March	2614.3	2611.0	342.5	340.9	924.5	931.2	1347.3	1338.9	1122.5	1123.5
April	2629.3	2619.5	344.7	340.0	927.8	932.8	1356.8	1346.7	1126.0	1122.0
May	2645.8	2632.3	346.3	339.8	933.2	937.9	1366.3	1354.6	1129.7	1127.3
June	2659.5	2641.3	344.9	340.1	938.9	937.4	1375.7	1363.8	1131.7	1127.1
July	2668.4	2655.9	344.1	341.0	939.7	942.0	1384.6	1372.9	1130.7	1129.7
August	2680.1	2672.7	344.4	342.4	940.4	946.7	1395.3	1383.6	1131.3	1132.9
September	2693.3	2686.7	345.9	344.6	941.4	950.6	1406.0	1391.5	1132.6	1135.3
October	2709.4	2701.0	346.8	347.6	947.8	952.5	1414.8	1400.9	1135.1	1137.9
November	2727.0	2713.5	348.6	347.4	954.2	955.3	1424.2	1410.8	1138.6	1139.0
December	2741.0	2728.4	350.1	349.5	957.3	959.3	1433.6	1419.6	1140.7	1141.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	114.42	114.42	16.47	16.47	10.3	10.3	72.08	72.08	25.87	25.87
August	117.04	116.98	16.70	16.82	12.6	12.6	72.77	72.70	27.57	27.46
September	120.23	119.54	16.80	16.91	14.5	14.4	73.22	72.95	30.20	29.68
October	115.85	114.55	16.84	17.32	9.8	9.6	73.68	72.66	25.33	24.57
November	115.91	115.85	16.90	17.45	9.9	9.8	74.05	73.61	24.96	24.80
December	115.88	116.99*	16.96	17.58*	10.1	10.0*	74.14	74.16*	24.78	25.25*
January 1986	116.68	117.25	17.01	17.46	9.9	10.0	74.58	74.43	25.09	25.36
February	117.26	117.25	17.08	17.50	9.9	9.8	75.13	74.78	25.05	24.97
March	117.23	117.61	17.15	17.53	9.8	9.8	75.01	75.02	25.07	25.06
April	117.89	117.63	17.25	17.59	9.8	9.7	75.49	75.15	25.15	24.89
May	118.27	118.01	17.20	17.68	9.9	9.6	75.75	75.56	25.32	24.77
June	118.55	118.01	17.20	17.57	9.9	9.6	76.02	75.52	25.33	24.92
July	118.60	118.50	17.28	17.62	9.7	9.6	76.28	75.89	25.04	24.99
August	118.87	119.05	17.35	17.58	9.6	9.7	76.46	76.27	25.06	25.20
September	118.59	119.64	17.20	17.67	9.5	9.7	76.30	76.58	25.09	25.39
October	119.45	120.16	17.32	17.73	9.5	9.8	76.86	76.73	25.27	25.70
November	120.25	120.36	17.45	17.81	9.6	9.7	77.36	76.96	26.44	25.59
December	120.95	120.95	17.46	17.85	9.7	9.8	77.89	77.28	25.60	25.82

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	1.663	1.663	1.062	1.062	1.694	1.694	340.2	344.8	201.7	204.4
August	1.746	1.740	1.074	1.059	1.784	1.784	344.0	344.7	204.5	204.9
September	1.583	1.616	0.962	0.975	1.796	1.808	348.0	346.1	206.7	205.8
October	1.685	1.761	1.003	1.125	1.741	1.688	348.3	347.8	206.0	206.7
November	1.723	1.547	1.058	0.928	1.683	1.648	349.0	349.5*	205.3	207.3*
December	1.734	1.675*	1.065	1.042*	1.675	1.608*	350.9	348.6	205.3	206.4
January 1986	1.708	1.711	1.025	1.063	1.638	1.593	352.2	350.2	205.5	207.0
February	1.695	1.676	1.027	1.055	1.563	1.572	354.9	351.2	206.6	207.2
March	1.691	1.720	1.053	1.103	1.558	1.578	357.6	354.9	207.8	208.9
April	1.708	1.777	1.046	1.128	1.569	1.623	359.2	356.5	207.9	209.3
May	1.713	1.755	1.057	1.114	1.583	1.637	360.5	357.9	207.9	209.7
June	1.649	1.733	1.065	1.109	1.542	1.616	362.1	359.8	208.1	210.3
July	1.628	1.654	1.053	1.072	1.497	1.562	362.9	360.4	208.0	210.1
August	1.615	1.678	1.058	1.105	1.483	1.551	363.4	359.5	207.7	209.1
September	1.603	1.701	1.046	1.117	1.480	1.575	364.0	360.4	207.4	209.0
October	1.583	1.697	1.050	1.086	1.472	1.543	362.2	360.1	205.7	208.3
November	1.587	1.693	1.051	1.076	1.483	1.527	360.4	362.3	203.8	208.8
December	1.618	1.680	1.063	1.079	1.491	1.530	360.9	363.0	203.3	208.6

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	131.0	131.1	64.7	64.5	144.5	149.2
August	132.3	132.4	64.4	64.0	147.2	148.3
September	133.5	133.7	64.8	63.4	149.7	149.0
October	135.0	132.4	65.0	64.0	148.3	151.4
November	136.6	133.5*	64.8	64.2*	147.6	151.8*
December	138.1	134.4	64.9	64.5	147.9	149.7
January 1986	139.0	134.3	63.9	64.1	149.3	151.8
February	140.1	135.5	64.0	64.4	150.8	151.3
March	141.2	136.1	64.2	64.9	152.2	153.9
April	142.2	136.5	65.0	65.2	152.0	154.8
May	143.1	136.9	66.1	65.6	151.3	155.4
June	144.0	137.4	67.3	66.0	150.8	156.4
July	144.7	138.0	67.7	66.2	150.5	156.2
August	145.3	138.3	68.1	66.5	150.0	154.7
September	145.8	138.9	68.6	66.9	149.6	154.6
October	146.0	138.8	67.9	67.3	148.3	154.0
November	146.2	139.6	66.8	67.7	147.4	155.0
December	146.2	140.0	67.2	68.0	147.5	155.0

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	285.0	285.0	104.37	104.37	26.69	26.69	27.04	27.04
August	284.6	284.7	107.33	107.66	27.55	27.55	27.79	27.79
September	284.9	284.0	106.11	106.64	28.85	29.24	26 54	26.72
October	285.2	282.1	105.58	104.44	28.26	27.17	27.25	27.93
November	285.9	282.7*	105.03	106.22*	28.11	27.93*	27.39	27.61*
December	286.5	283.6	105.46	106.94	28.42	27.83	27.54	27.95
January 1986	287.7	284.4	107.19	107.65	28.93	28.07	27.81	27.58
February	289.0	285.5	107.63	108.13	29.06	28.33	27.93	27.82
March	290.1	286.6	104.85	108.44	27.62	28.40	27.76	28.01
April	291.6	287.9	104.99	107.85	27.95	28.16	28.04	28.16
May	292.9	289.1	106.27	107.72	28.36	27.95	28.36	28.35
June	294.3	290.3	107.73	107 46	28.53	27.91	28.70	28.43
July	295.8	291.4	108.82	107.27	28.75	27.68	28.86	28.40
August	297.5	292.6	108.51	107.35	28.92	27.69	28.55	28.37
September	298.9	293.7	107.65	107.92	28.68	27.78	28.67	28.32
October	300.2	294.9	106.93	108.16	28.62	27.93	28.95	28.45
November	301.7	296.1	105.88	108.53	28.51	28.06	29.10	28.51
December	303.0	297.3	106.27	108.68	28.68	28.15	29.19	28.59

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	580.1	580.1	6.83	6.83	124.1	124.1	80.2	80.2
August	577.9	578.2	7.16	7.16	124.8	125.2	80.5	80.7
September	574.2	578.9	7.07	7.13	124.7	125.0	80.2	80.4
October	576.3	582.0	7.15	7.69	125.1	124.6	80.3	79.9
November	577.8	583.5*	7.21	7.33*	125.7	125.1	80.5	80.1
December	579.1	585.1	7.25	7.38	126.2	125.4*	80.6	80.2*
January 1986	581.6	586.7	7.36	7.43	126.7	125.7	80.8	80.3
February	584.3	588.6	7.47	7.49	127.1	125.9	80.9	80.3
March	587.1	590.5	7.60	7.60	127.8	126.2	81.1	80.4
April	590.0	592.7	7.71	7.68	128.0	126.4	81.0	80.4
May	592.8	595.0	7.75	7.76	127.8	126.6	80.7	80.3
June	595.7	597.1	7.77	7.83	127.6	126.8	80.4	80.3
July	598.4	599.4	7.89	7.91	127.4	126.8	80.1	80.1
August	601.3	601.4	8.01	8.04	127.2	126.9	79.8	80.0
September	604.4	603.7	8.10	8.12	127.2	127.1	79.6	79.9
October	607.6	606.2	8.18	8.21	127.1	127.3	79.3	79.9
November	610.5	608.7	8.27	8.33	127.1	127.3	79.1	79.7
December	613.4	611.2	8.36	8.42	127.0	127.5	78.8	79.7

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	322.4	322.4	294.4	294.4	324.3	324.4	231.80	231.66
August	323.3	323.0	293.5	293.5	323.6	323.6	232.45	231.93
September	324.2	323.6	291.7	291.7	322.5	322.5	233.07	231.96
October	325.3	324.6	293.6	294.4	324.3	324.4	234.18	233.19
November	326.5	326.2	294.8	296.7	324.5	325.0	234.76	233.95
December	327.7	327.2*	295.6	297.5*	324.7	324.9*	235.46	234.66
January 1986	328.6	328.2	296.1	298.2	325.0	325.3	236.35	235.37
February	329.5	329.1	297.0	299.3	324.5	324.4	237.30	236.11
March	330.4	329.7	297.8	299.0	324.6	323.7	238.04	236.59
April	331.9	330.5	298.5	299.3	325.0	324.3	238.72	237.59
May	333.3	331.5	299.3	299.6	325.9	324.9	239.64	237.71
June	334.8	332.4	300.1	300.0	326.8	325.6	240.56	238.51
July	335.9	333.3	300.7	300.6	327.0	326.3	241.50	239.29
August	337.1	334.4	301.5	301.1	327.9	327.0	242.42	240.16
September	338.3	335.6	302.0	301.5	326.2	325.3	243.34	240.93
October	339.5	336.5	303.1	302.0	328.6	327.8	244.17	241.70
November	340.7	337.6	303.9	302.4	328.8	328.4	245.06	242.57
December	341.9	338.8	304.4	302.8	329.1	328.9	245.95	243.44

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	227.3	227.5	177.8	177.8	221.7	221.7	250.0	250.4	168.7	168.7
August	227.5	227.3	178.8	178.3	221.7	221.4	251.0	251.2	168.2	168.2
September	227.6	227.4	179.1	178.3	222.0	222.1	251.9	252.0	168.3	168.2
October	229.0	229.0*	177.8	177.5*	222.9	222.8*	252.9	252.9*	169.1	168.3
November	229.9	229.8	178.0	177.9	223.9	223.9	254.0	253.6	170.0	168.6*
December	230.8	230.4	178.2	178.0	224.8	224.8	254.8	254.4	170.9	168.9
January 1986	231.4	231.1	178.4	178.3	225.2	225.1	255.9	255.5	171.4	169.2
February	232.1	231.9	178.6	178.7	225.6	225.4	257.0	256.5	171.8	169.5
March	232.9	232.4	178.9	179.0	225.8	225.3	258.1	257.6	172.1	169.9
April	233.5	233.5	179.1	179.3	226.3	225.1	259.1	258.5	172.8	170.3
May	234.2	233.5	179.3	179.6	226.8	225.4	260.2	259.5	173.4	170.7
June	235.0	234.4	179.5	180.0	227.4	226.0	261.3	260.6	174.0	171.1
July	236.0	235.1	179.8	180.4	228.0	226.4	262.7	261.7	174.5	171.5
August	236.9	235.9	180.1	180.8	228.6	226.9	264.0	262.9	175.0	171.9
September	237.8	236.7	180.4	181.2	229.2	227.4	265.3	264.0	175.5	172.4
October	238.7	237.4	180.8	181.7	229.8	227.8	266.4	265.1	176.1	172.9
November	239.5	238.2	181.2	182.3	230.4	228.3	267.5	266.2	176.8	173.5
December	240.3	239.1	181.5	182.8	231.0	228.9	268.6	267.4	177.5	174.0

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	-10.51	-10.51	168.7	168.7	3885	3889	1676	1679	6.7	6.7
August	-9.90	-9.90	170.1	170.0	3921	3924	1687	1692	6.8	6.8
September	-11.50	-15.50	171.0	170.6	3942	3934	1691	1696	4.8	9.0
October	-10.68	-11.47	171.1	171.1	3967	3955	1694	1696	2.2	7.3
November	-10.92	-11.93*	171.3	171.8*	3992	3974	1700	1699	-3.5	5.6
December	-11.16	-12.96	171.9	172.3	4016	3993	1706	1702	-6.5	3.5
January 1986	-11.01	-12.16	171.6	172.6	4043	4023	1711	1709	-3.6	1.9
February	-11.96	-11.54	171.9	173.2	4067	4043	1714	1712	-0.9	3.6
March	-11.44	-11.22	172.2	173.0	4101	4070	1723	1720	0.5	6.1
April	-10.27	-11.06	171.8	171.9	4122	4095	1727	1724	1.2	9.4
May	-11.46	-10.53	171.5	172.1	4144	4118	1729	1732	2.1	9.7
June	-12.21	-10.75	172.2	171.8	4157	4138	1728	1735	1.8	9.0
July	-9.73	-11.07	171.6	171.5	4176	4154	1729	1736	0.5	7.8
August	-11.48	-10.61	170.9	171.8	4197	4177	1731	1739	-3.6	6.5
September	-11.32	-10.27	170.8	172.3	4218	4203	1733	1744	-6.5	3.7
October	-11.20	-10.11	170.3	172.5	4239	4231	1736	1751	-6.5	2.8
November	-10.96	-10.16	170.9	172.2	4262	4251	1739	1752	-7.3	2.1
December	-10.04	-9.96	171.3	172.2	4286	4273	1743	1755	-7.8	1.7

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	228.0	227.9	595.8	595.8	2490.5	2490.6	7.88	7.88	7.16	7.16
August	229.3	229.4	605.9	605.9	2513.7	2514.1	7.90	7.90	7.32	7.32
September	231.3	231.3	611.7	611.9	2528.4	2528.9	7.92	7.92	7.42	7.27
October	231.7	231.3	610.5	611.1	2540.5	2533.4	7.95	7.99	7.40	7.33
November	232.8	232.7	612.6	617.7	2557.1	2547.3	8.15	8.05	7.58	7.30
December	234.0	235.5*	615.3	624.1*	2573.6	2562.1*	8.29	7.98*	7.64	7.09*
January 1986	235.4	236.2	619.1	625.9	2590.4	2577.5	8.25	8.06	7.66	7.16
February	236.8	237.3	622.3	628.1	2606.8	2595.5	8.36	8.03	7.79	7.27
March	238.1	238.5	625.3	631.1	2623.2	2613.7	8.50	7.97	7.92	7.22
April	239.3	239.5	628.2	633.5	2640.4	2632.0	8.59	7.93	7.98	7.16
May	240.5	240.6	630.6	636.4	2655.2	2650.4	8.55	7.90	7.95	7.20
June	241.7	241.4	633.0	638.0	2667.3	2663.7	8.42	7.92	7.86	7.27
July	243.0	242.8	635.0	641.5	2682.5	2682.3	8.26	7.82	7.74	7.09
August	244.3	243.8	637.9	643.6	2700.3	2698.4	8.12	7.73	7.63	7.01
September	245.6	245.1	640.8	646.3	2719.6	2714.6	8.01	7.66	7.46	6.88
October	247.0	246.5	644.4	649.5	2738.5	2733.6	7.86	7.59	7.45	6.83
November	248.3	247.7	648.3	652.7	2755.0	2752.7	7.71	7.73	7.43	6.95
December	249.6	248.8	650.7	655.1	2772.1	2769.2	7.59	7.60	7.41	6.92

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	10.97	10.97	8.81	8.81	7.56	7.56	7.74	7.74	9.50	9.50
August	11.05	11.05	9.13	9.08	7.72	7.72	7.81	7.81	9.50	9.50
September	11.07	11.07	9.32	9.32	7.83	7.83	7.93	7.93	9.50	9.50
October	11.08	11.02	9.25	9.08	7.82	7.80	7.90	7.88	9.50	9.50
November	11.20	10.55	9.30	8.54	8.16	7.77	8.26	7.81	9.50	9.50
December	11.38	10.21*	9.36	8.46*	8.30	7.85*	8.42	7.94*	9.50	9.50*
January 1986	11.40	9.96	9.39	8.07	8.14	7.96	8.27	8.05	9.88	9.50
February	11.46	9.83	9.46	7.96	8.35	8.02	8.49	8.16	10.00	9.50
March	11.51	9.95	9.52	8.08	8.46	7.95	8.63	8.07	10.00	9.50
April	11.63	10.07	9.64	8.22	8.50	7.92	8.67	8.03	10.11	9.50
May	11.65	10.13	9.66	8.26	8.46	7.83	8.65	7.98	10.50	9.50
June	11.55	10.06	9.63	8.16	8.37	7.88	8.49	7.99	10.50	9.50
July	11.48	9.87	9.53	7.95	8.15	7.85	8.36	7.96	10.39	9.50
August	11.36	9.72	9.37	7.78	8.07	7.78	8.29	7.89	10.00	9.50
September	11.21	9.75	9.19	7.86	7.96	7.67	8.17	7.82	10.00	9.50
October	11.07	9.68	8.99	7.84	7.85	7.61	8.02	7.78	10.00	9.50
November	10.96	9.84	8.82	7.99	7.63	7.79	7.86	7.93	9.51	9.50
December	10.85	9.81	8.68	8.00	7.56	7.65	7.69	7.84	9.50	9.50

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